

Message Text

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53-S

ACTION EA-10

INFO OCT-01 ISO-00 AID-05 IGA-01 PM-03 NSC-05 SP-02 SS-15

CIAE-00 INR-07 NSAE-00 ABF-01 OMB-01 TRSE-00 DODE-00

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R 251030Z FEB 75

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 9501

C O N F I D E N T I A L PHNOM PENH 3448

E.O. 11652: GDS

TAGS: EAID, EFIN, CB

SUBJ: KHMER BUDGET, 1974

REF: STATE 6995

1. GKR BUDGETARY EXPENDITURES IN 1974 TOTALLED 84.0 BILLION
RIELS. TOTAL EXPENDITURES OF 115.2 BILLION ARE PROJECTED FOR
1975, PROVIDED CURRENT RESTRAINTS ON SPENDING ARE CONTINUED
(E.G., MORATORIUM ON SALARY INCREASES, BAN ON NEW CONSTRUCTION).
RECEIPTS FROM ALL SOURCES IN 1974 AMOUNTED TO 51.1 BILLION
RIELS, RESULTING IN A DEFICIT AFTER COUNTER PART OF 32.9
BILLION RIELS, WHICH WAS FINANCED THROUGH BORROWINGS FROM THE
CENTRAL BANK AND BOND SALES. IN 1975, RECEIPTS ARE EXPECTED
TO TOTAL SOME 48.7 BILLION RIELS, LEAVING A DEFICIT AFTER
COUNTERPART OF 66.5 BILLION RIELS.

(BILLION RIELS)

	1974	1975
BUDGET EXPENDITURES	84.0	115.2
BUDGET RECEIPTS	23.1	27.7
	60.9	87.5
COUNTERPART	28.0	21.0
DEFICIT	32.9	66.5

2. APPROXIMATELY 72 PERCENT OF GKR BUDGETARY OUTLAYS IN 1974
WERE FOR SALARY PAYMENTS. A SLIGHTLY LOWER 71 PERCENT RATIO
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IS FORECAST FOR 1975, ALTHOUGH THIS WILL MOST LIKELY BE RAISED
EVEN FURTHER AS A MODEST 30-50 PERCENT MID-YEAR SALARY BOOST

TO PARTIALLY OFFSET HIGHER LIVING COSTS SEEMS INEVITABLE. THE MILITARY SECTOR CLAIMED SOME 61 PERCENT OF TOTAL GKR OUTLAYS IN 1974. ALTHOUGH THIS RATION IS SHOWN AS BEING REDUCED TO AROUND 57 PERCENT UNDER THE PROJECTED 115.2 BILLION EXPENDITURE LEVEL, IT WOULD INCREASE SIGNIFICANTLY IF A MID-YEAR SALARY INCREASE IS GRANTED, SINCE MILITARY SALARIES ACCOUNT FOR ABOUT THREE-FOURTHS OF TOTAL SALARY PAYMENTS. COMPARATIVE DATA FOR 1974 AND 1975 ARE SUMMARIZED BELOW. THE 1974 EXPENDITURES ARE ACTUAL DATA; THE FIGURES FOR THE FIRST HALF OF 1975 ARE GKR ESTIMATES TAKEN FROM THE SUPPLEMENTAL BUDGET CURRENTLY BEING REVIEWED BY THE NATIONAL ASSEMBLY; AND THE FULL YEAR 1975 FIGURES ARE USAID PROJECTIONS.

	1974	1975	4-589	
	(ACTUAL)	1ST HALF	FULL YR (1975-	
		1974)	EST.	PROJ.
TOTAL GKR BUDGET EXPENDITURE	84.0	57.9	115.2	1.37
CIVIL (1)	32.5	25.1	49.6	1.53
SALARIES	15.2	12.0	24.2	1.59
MATERIAL AND SERVICES	17.3	13.1	25.4	1.47
MILITARY	51.5	32.8	65.6	1.27
SALARIES	45.4	29.0	58.0	1.28
MATERIAL AND SERVICES	6.1	3.8	7.6	1.25

(1) INCLUDES RIEL EQUIVALENT OF DOLLAR EXPENDITURES FOR OVERSEAS POSTS AND DIPLOMATIC MISSIONS ABROAD.

3. EXTRA-BUDGETARY EXPENDITURES, CONSISTING PRIMARILY OF U.S. COUNTERPART RELEASES TO THE VOLUNTARY AGENCIES AND RDF FOR REFUGEE SUPPORT AND DEVELOPMENT, TOTALLED 15.5 BILLION RIELS IN 1974 AND ARE PROJECTED AT 56.2 BILLION FOR 1975, AS SHOWN IN THE TABLE BELOW. DATA SHOWN FOR THE FIRST HALF OF 1975 ARE CONFIDENTIAL
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FIRM ESTIMATES. THE FINAL ALLOCATIONS FOR 1975 WILL, OF COURSE, DEPEND HEAVILY UPON SECURITY-CONDITIONS DURING THE YEAR. IF AND WHEN THE SECURITY SITUATION AMELIORATES, IT IS EXPECTED THAT FUNDS CAN AND WILL BE SHIFTED FROM RELIEF OPERATIONS TO RESETTLEMENT AND AGRICULTURAL DEVELOPMENT PROJECTS.

1974	1975	RATIO
(ACTUAL)	1ST HALF	FULL YR (1975
	1974)	
(EST.)	(PROJ)	

TOTAL EXTRA-BUDGETARY

EXPENDITURES (1) 15.5 29.4 56.2 3.63

VOLAGE (INCL.RED CROSS) 9.9 20.7 34.0

RDF (INCL.MINISTRY OF
REFUGEES) 2.3 3.4 7.0

SORAPA 1.0 2.0 6.0

TRANSPORT 0.4 0.2 0.6

RICE AIRLIFT 1.3 2.0 5.0

TRUST FUND 0.6 0.5 1.0

AGRIC. CREDIT - - 2.0

AIRSTRIIP - 0.6 0.6

NOTE: (1) ACTUAL RELEASES FOR 1974, PROJECTED FOR 1975.

4. BASED ON THE ABOVE, TOTAL EXPENDITURES IN 1974 (BUDGETARY AND EXTRA-BUDGETARY) WERE 99.5 BILLION RIELS. FOR 1975, TOTAL EXPENDITURES ARE PROJECTED AT 171.4 BILLION, AN INCREASE OF 72 PERCENT. HOWEVER, AS NOTED EARLIER, THE 1975 PROJECTION ASSUMES NO GOVERNMENTAL SALARY INCREASES DURING THEY YEAR AS WELL AS THE CONTINUATION OF RESTRAINTS ON OTHER SPENDING. EVEN SO, A RATHER SIZEABLE DEFICIT OF SOME 66.5 BILLION RIELS WOULD BE RECORDED AND

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THIS IS BASED ON AN OPTIMISTIC ASSESSMENT OF POTENTIAL RECEIPTS. THE PROLONGED CLOSURE OF THE MEKONG RIVER HAS VIRTUALLY CHOKED OFF THE FLOW OF REVENUES TO THE GKR FOR THE PRESENT, SINCE MOST OF THESE REVENUES ARE IMPORT-RELATED. THE GENERATION OF COUNTERPART FUNDS WHICH ARE REALIZED THROUGH THE IMPORT OF GOODS FINANCED UNDER THE ESF AND CIP PROGRAMS HAS ALSO BEEN BROUGHT TO A STANDSTILL. INCREASED RECEIPTS MIGHT BE GENERATED BY RAISING THE OFFICIAL SALES PRICE OF PL-480 RICE, BUT THE PRESENT PRICE OF 155 RIELS/KG IS ALREADY BEYOND THE REACH OF MANY IN PHNOM PENH, AND BURDENSOME TO CIVIL SERVANTS, TEACHERS, AND MILITARY DEPENDENTS WHOSE INCOMES IN RECENT YEARS HAVE BADLY LAGGED PRICE INFLATION. BECAUSE OF CURTAILED IMPORTS, EXCHANGE RATE ADJUSTMENTS CANNOT BE VIEWED AS AN ALTERNATE SOURCE OF SUBSTANTIAL ADDITIONAL REVENUES.

5. IN BRIEF, THERE IS VERY LITTLE SCOPE, IF ANY, FOR PROGRESS TOWARDS A MORE BALANCED BUDGET IN 1975 BECAUSE

OF THE BLEAK REVENUES PROSPECTS AND PERSISTENT PRESSURES FOR INCREASED EXPENDITURES. ALREADY, BECAUSE OF HEAVY MILITARY ACTIVITY SINCE THE BEGINNING OF THE YEAR, DEMANDS ARE MOUNTING FOR INCREASED MILITARY AND REFUGEE RELIEF EXPENDITURES. MOREOVER, AS THE CURRENT HIGH RATE OF PRICE INFLATION CONTINUES TO ERODE THE PURCHASING POWER OF GOVERNMENT WORKERS; SALARIES, THERE WILL BE MORE STRIDENT DEMANDS FOR A PAY INCREASE. INEVITABLY SOME RELIEF MUST BE GRANTED, ADDING FURTHER TO THE BUDGET DEFICIT INsofar AS OFFSETTING REVENUES ARE UNAVAILABLE. REDUCTIONS IN FANK AND CIVILIAN PAYROLLS TO OFFSET HIGHER PAY SCALES, ALTHOUGH ECONOMICALLY DESIRABLE, ARE NOT PRESENTLY FEASIBLE PRIMARILY FOR REASONS OF POLITICAL AND MILITARY SECURITY. TEACHERS REPRESENT A LARGE SHARE OF THE CIVILIAN PAYROLL, THEY ARE A VERY POTENT POLITICAL FORCE IN PHNOM PENH, AND CUTS IN THEIR RANKS WOULD BE POLITICALLY VERY COSTLY. THE MILITARY FORCES CURRENTLY ARE ENGAGED IN HEAVY FIGHTING THROUGHOUT THE COUNTRY, AND ANY REDUCTION IN THEIR RANKS WOULD IMPACT HEAVILY ON THE MORALE OF THE PEOPLE, AND MUST AWAIT A GENERAL LESSENING OF HOSTILITIES COUNTRYWIDE.

6. AN ASSESSMENT OF THE PRESENT ECONOMIC SITUATION AND
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THE FX FOREIGN EXCHANGE BUDGET REQUESTED REFTTEL WILL BE FORWARDED SHORTLY SEPTTEL.
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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 25 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750066-0453
From: PHNOM PENH
Handling Restrictions: n/a
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ISecure: 1
Legacy Key: link1975/newtext/t19750215/aaaaamxz.tel
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05 JUL 2006

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Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
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Type: TE
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